

## Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00

CIEP-02 COME-00 DODE-00 EB-11 FEA-02 FPC-01 H-03

INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01

SAM-01 SCI-06 SPC-03 SS-20 STR-08 TRSE-00 PA-04 PRS-01

USIA-15 FTC-01 DRC-01 /189 W  
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P R 190922Z MAR 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 694

INFO AMEMBASSY BONN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

USMISSION EC BRUSSELS

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E.O. 11652: NA

TAGS: ENRG JA

SUBJ: ENERGY: GOJ ALLOWS RISE IN OIL PRODUCT PRICES

REF: TOKYO 3149

SUMMARY: EFFECTIVE MARCH 18, GOJ WILL ALLOW WHOLESALE  
PRICES OF PETROLEUM PRODUCTS TO RISE BY AN AVERAGE OF 62  
PERCENT. RETAIL PRICES OF SOME POLITICALLY SENSITIVE  
PRODUCTS HOWEVER, WILL EITHER NOT BE RAISED AT ALL OR WILL BE  
RAISED BY SMALL AMOUNT. REACTION TO GOJ MOVE IS UNIFORMLY CRITICAL:  
OIL INDUSTRY CLAIMS INCREASE NOT ENOUGH, CONSUMERS CLAIM  
NT TOO MUCH, AND BUSINESS LEADERS EXPRESS CONCERN THAT  
PRICE CONTROLS WILL LEAD TO OIL SHORTAGES. EXXON SOURCES  
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SAY COMPANY WILL MAINTAIN SUPPLY CUTBACK, AND EXPECT SOME

JAPANESE INDEPENDENTS TO DO THE SAME. END SUMMARY.

1. GOJ ANNOUNCED MARCH 16 THAT IT WOULD ALLOW AVERAGE WHOLESALE PRICE OF PETROLED PRODUCTS TO RISE BY 62 PERCENT OF 8,946 YEN (\$30.85) PER KILOLITER FROM LEVEL AT WHICH PRODUCT PRICES HAD BEEN FROZEN SINCE DECEMBER. AS INDICATED REFTEL, LDP AND GOJ LEADERS AGREED IN PRINCIPLE ABOUT MARCH 8 THAT PRICE RISE SHOULD BE ALLOWED. 8,946 YEN FIGURE IS RESULT OF INTENSE INTER-MINISTERIAL AND POLITICAL BARGAINING OVER LAST WEEK TO TRY TO RECONCILE DEMANDS OF INDUSTRY FOR 11-13,000 YEN INCREASEPN WITH POLITICAL CONSEQUENCES FOR UPPER HOUSE ELECTIONS IN JUNE OR JULY.

2. CONTROL OVER PRICE INDREASES WILL BE ACCOMPLISHED THROUGH MITI "ADMINISTRATIVE GUIDANCE" PLAN, WHICH HAS FOLLOWING BASIC ELEMENTS:

A. AVERAGE WHOLESALE PRICE FOR ALL PETROLEUM PRODUCTS WILL BE SET AT 23,303 YEN (80.35) PER KILOLITER.

B. WHOLESALE PRICES FOR SPECIFIC PRODUCTS WILL BE SET SEPARATELY. INCREASES WILL RANGE FROM 54 TO 65 PERCENT.

C. RETAIL PRICES OF THREE POLITICALLY SENSITIVE PRODUCTS, GASOLINE, GAS-OIL (USED IN TRUCKS AND BUSES), AND HEAVY OIL A (USED IN FISHING VESSELS) WILL BE SET. RETAIL PRICE INCREASES WILL BE SMALL --FROM \$1.10 TO \$1.23 IN CASE OF GASOLINE. THIS WILL BE ACCOMPLISHED BY SQUEEZING RETAIL MARGINS RATHER THAN HOLDING DOWN WHOLESALE PRICES MORE THAN OTHER PRODUCTS.

D. WHOLESALE AND RETAIL PRICE FOR KEROSENE (USED FOR HOME HEATING) WILL NOT INCREASE.

E. PRICE OF HEAVY OIL C, WHICH GENERALLY HAS HIGH SULFUR CONTENT, WILL BE ALLOWED TO RISE MOST TO DISCOURAGE ITS USE.

ACCORDING TO MITI MINISTER NAKASONE, PRICES ESTABLISHED IN CURRENT ACTION WILL REMAIN AT THIS LEVEL FOR AT LEAST ONE YEAR; HOWEVER THERE IS APPARENTLY PROVISION FOR LIMITED OFFICIAL USE

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ADJUSTMENT OF PRICES IF EXCHANGE RATE SHOULD CHANGE SIGNIFICANTLY.

3. AS NOTED REFTEL, OIL PRICE RISE ACTION TAKEN IN CONJUNCTION WITH DECISION TO ATTEMPT TO CONTROL PRICES OF OTHER COMODITIES. UNDER THIS POLICY, MITI WILL SOON ISSUE GUIDANCE DESIGNED TO HOLD PRICES OF 53 BASIC INDUSTRIAL MATERIALS AND DAILY NECESSITIES AT PRESENT

LEVELS. BOTH OIL PRICE LEVELS AND DAILY NECESSITY PRICE LEVELS, WHEN ANNOUNCED WILL BE SET UNDER ADMINISTRATIVE GUIDANCE. IN RESPONSE EMBASSY INQUIRY, MITI OFFICIAL SAID ADMINISTRATIVE GUIDANCE USED BECAUSE PRICE SITUATION STILL TOO FLUID PERMIT FIXING OF STANDARD PRICES UNDER "PEOPLES LIVELIHOOD STABILIZATION EMERGENCY MEASURES LAW". HE UNWILLING PREDICT WHEN PRICE FIXING MIGHT OCCUR UNDER LAW.

4. REACON TO GOJ OIL PRICE MOVE HAS BEEN UNIFORMLY CRITICAL, BUT FOR A VARIETY OF REASONS. OIL INDUSTRY SPOKESMAN, NOTING THAT INDUSTRY HAD ASKED FOR MUCH LARGER INCREASE, CLAIMED THAT IT HAD BEEN MADE SCAPEGOAT FOR PM TANAKA'S POLITICAL PROBLEMS IN PREPARING FOR UPPER HOUSE ELECTIONS, AND FORECAST CONTINUING FINANCIAL LOSSES FOR INDUSTRY. UEMURA, PRESIDENT OF JAPANESE FEDERATION OF ECONOMIC ORGANIZATIONS, AND OTHER INDUSTRY LEADERS CRITICIZED ACTION AS IGNORING FUNDAMENTAL ECONOMIC PRINCIPLES AND BEING CONTRARY TO FREE MARKET PRICE. MANY INDUSTRY LEADERS ALSO EXPRESSED CONCERN THAT PRICE CONTROLS WOULD LEAD TO REDUCED OIL SUPPLIES. ON OTHER HAND, AUTO INDUSTRY PUBLICLY EXPRESSED FEAR THAT GASOLINE PRICE HIKE WOULD HURT ALREADY SAGGING DOMESTIC AUTOMOBILE SALES. ALSO, CONSUMERS' GROUPS CHARGED PRIME MINISTER WITH "GIVING IN TO OIL INTERESTS AGEIN".

5. JAPANESE FAIR TRADE COMMISSION (FTC) ALSO HAD REACTION TO GOJ ACTION: A CHALLENGE TO ITS LEGALITY. FTC LAWYERS CLAIM THAT ADMINISTRATIVE GUIDANCE AMOUNTS TO GOVERNMENT PARTICIPATION IN PRICE FIXING PROCESS WHICH IS ILLEGAL UNDER ANTI-MONOPOLY LLAW. FTC HAS REQUESTED GOVERNMENT TO USE ITS LEGISLATIVE AUTHORITY LIMITED OFFICIAL USE

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TO SET "STANDARD PRICES", I.E. UNDER EMERGENCY MEASURES LAW, RATHER THAN ISSUING GUIDANCE. OPPOSITION PARTY DIET MEMBERS HAVE ENDORSED REQUEST, CLAIMING THAT ADMINISTRATIVE GUIDANCE AMOUNTS TO CLANDESTINE CONSULTATIONS WITH INDUSTRY. PM TANAKA HAS TEMPORIZED BY EXPRESSING HOPE THAT NEW PRICES COULD BE REDESIGNATED AS STANDARD PRICES IN FUTURE.

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P R 190922Z MAR 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 695

INFO AMEMBASSY BONN

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6. PRESENT INDICATIONS ARE THAT NEW PRICE CONTROLS MAY PRODUCE TIGHT CRUDE OIL SUPPLY SITUATION. IDEMITSU KOSAN, GENERALLY MOST OUTSPOKEN AMONG JAPANESE OIL COMPANIES, REPORTEDLY ISSUED STATEMENT SAYING THAT FIRM WOULD IMPORT ABOUT 11 PERCENT LESS CRUDE OIL IN APRIL TO JUNE PERIOD AS RESULT OF PRICE CONTROLS. EXXON SOURCE ALSO TOLD EMBOFF THAT COMPANY SAW NOTHING IN MITI ACTION THAT WOULD CAUSE IT TO CHANGE ITS PREVIOUS DECISION TO REDUCE OIL PRODUCT (AND THUS CRUDE OIL) SUPPLIES TO JAPAN BY 15 PERCENT BELOW WHAT WOULD HAVE BEEN SUPPLIED UNDER NORMAL CIRCUMSTANCES. EXXON SOURCE SAID THAT ACCORDING TO HIS INFORMATION JAPANESE INDEPENDENT OIL FIRMS HAD ALREADY BEGUN TO DEFER SOME PURCHASES OF CRUDE OIL BECAUSE OF PRVIOUS PRICE FREEZE

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ACTION, AND THAT SOME CRUDE OIL SHORTAGES WOULD BE

BOUND TO BE FELT IN APRIL IN ANY CASE. SINCE PRESENT PRICE HIKE, HE SAID, CALCULATED TO COVER AVERAGE COSTS OF INDUSTRY, LESS EFFICIENT HALF OF JAPANESE OIL INDUSTRY WOULD PROBABLY CONTINUE TO RUN IN RED, AND THUS CONTINUE TO ATTEMPT TO REDUCE VOLUME OF CRUDE OIL HANDLED.

7. COMMENT: IN SUBSTANCE GOJ'S ACTIONS HAVE BEEN (A) TO RAISE POL WHOLESALE PRICES, BUT BY LOWER AMOUNT THAN REQUESTED BY OIL IMPORTERS/REFINERS; (B) TO FREEZE OR RAISE POL RETAIL PRICES, IN MANY CASES TO LESSER EXTENT THAN WHOLESALE PRICES; AND (C) TO ANNOUNCE INTENTION TO REGULATE RETAIL PRICES OF 53 QTE ESSENTIAL UNQTE ITEMS. WHILE SITUATION SHOULD BECOME CLEARER WHEN GOJ ANNOUNCES ACTUAL PRICES OF ESSENTIAL ITEMS, IT SEEMS LIKELY THAT NET EFFECT OF GOJ ACTIONS WILL BE (A) SOME REDUCTION IN LEVEL OF OIL IMPORTS BELOW WHAT WOULD HAVE BEEN THE CASE WITH HIGHER WHOLESALE PRICE RISE, AND (B) SOME SHORTAGES IN AVAILABILITY OF POL PRODUCTS AND ESSENTIAL ITEMS AS RESULT OF PRODUCTION ADJUSTMENT BY INDUSTRIES AS THEY SEEK TO TAKE MAXIMUM ADVANTAGE OF NEW PRICE STRUCTURE. FURTHER UNCERTAIN FACTOR IS WHAT DECISION GOJ WILL TAKE RE RATE INCREASE FOR JAPANESE ELECTRIC POWER COMPANIES. INCREASES OVER PAST YEAR HAVE NOT BEEN UNIFORM AMONG POWER COMPANIES, AND SOME, INCLUDING TOKYO ELECTRIC POWER, PRESSING FOR RATE INCREASE EVEN BEFORE POL FREEZE. IN THIS AND OTHER AREAS, POLICY OF GOJ SEEMS TO BE TO SEEK TO MINIMIZE ALL PRICE INCREASES REGARDLESS OF SHORT-TERM ECONOMIC CONSEQUENCES IN ORDER MAXIMIZE LDP'S CHANCES IN THIS SUMMER'S UPPER HOUSE ELECTION. SHOESMITH

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## Message Attributes

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**Copy:** SINGLE  
**Draft Date:** 19 MAR 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
**Disposition Case Number:** n/a  
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**Disposition Date:** 28 MAY 2004  
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